

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 AS-01 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

XMB-04 OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01

/111 W

-----082982 070906Z /16

R 070620Z JUL 77

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 803

INFO AMCONSUL BRISBANE

AMEMBASSY LONDON

AMCONSUL MELBOURNE

AMEMBASSY PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

UNCLAS SECTION 1 OF 2 CANBERRA 4732

USOECD

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, AS

SUBJECT: GOA RELAXES CONTROLS ON IMPORTS OF FOREIGN CAPITAL

REF: (A) CANBERRA 3203, (B) CANBERRA 1272 (NOTAL),

(C) CANBERRA 0364, (D) CANBERRA 0361

1. TREASURER LYNCH ANNOUNCED JULY 6 CHANGES TO CONTROLS ON OVERSEAS BORROWING INITIATED ON JANUARY 17 (REFS C AND D). LYNCH SAID THAT FROM JULY 7 THE VARIABLE-DEPOSIT REQUIREMENT (VDR) OF 25 PERCENT ON OVERSEAS BORROWINGS OF TWO YEARS OR MORE WOULD BE SUSPENDED.

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WM THE EXISTING EMBARGO ON OVERSEAS BORROWINGS FOR LESS THAN TWO YEARS WOULD REVERT TO PRE-JANUARY 17 SITUATION OF APPLYING TO BORROWINGS OF LESS THAN SIX MONTHS.

3. DEPOSITS ALREADY TAKEN BY RESERVE BANK ON PREVIOUSLY AUTHORIZED BORROWINGS WILL CONTINUE TO BE HELD UNDER THE CONDITIONS ORIGINALLY STIPULATED TO INDIVIDUAL

BORROWERS. THESE FUNDS FROZEN FOR TIME OF ORIGINAL LOAN IF LESS THAN THREE YEARS DURATION, OR FOR THREE YEARS IF LOAN OF LONGER DURATION THAN THREE YEARS. TREASURY OFFICIALS HAVE TOLD US THAT THE SUMS INVOLVED ARE NOT MORE THAN \$A10-15 MILLION.

4. BORROWINGS AGGREGATING \$A200,000 OR LESS (PREVIOUSLY \$A100,000) IN ANY 12 MONTH PERIOD WILL NOT BE SUBJECT TO EMBARGO OUTLINED IN PARA 2 ABOVE.

5. VDR HAS ALSO BEEN SUSPENDED ON NON-RESIDENT SUBSCRIPTIONS TO FIXED INTEREST SECURITIES INCLUDING GOVERNMENT SECURITIES. NEW SECURITIES TAKEN UP MUST HAVE AT LEAST SIX MONTHS TO RUN TO MATURITY.

6. MARKET PURCHASES BY NON-RESIDENTS OF ALL TYPES OF EXISTING ISSUES OF FIXED INTEREST SECURITIES ARE AGAIN PERMISSIBLE PROVIDED THEY ALSO HAVE A REMAINING SECURITY OF AT LEAST SIX MONTHS.

7. EMBARGO WILL APPLY TO NON-RESIDENT INVESTMENTS OF LESS THAN SIX MONTHS IN INTEREST-BEARING DEPOSITS WITH PARTIES SUCH AS BANKS, FINANCE COMPANIES, PASTORAL COMPANIES, SHORT-TERM MONEY, MARKET DEALERS, MERCHANT BANKS, ACCEPTING HOUSES, BUILDING SOCIETIES, BROKERS, SOLICITERS AND NOMINEE COMPANIES. SIX-MONTH EMBARGO UNCLASSIFIED

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WILL APPLY ONLY WHERE ABOVE NAMED FORMS OF INVESTMENT WERE TAKEN UP WITH FUNDS REMITTED TO AUSTRALIA AFTER JULY 6 AND THE TOTAL OF SUCH INVESTMENTS BY THE NON-RESIDENT AGGREGATED MORE THAN \$A50,000 (PREVIOUSLY \$A10,000) IN ANY TWELVE MONTH PERIOD.

8. IN RELATION TO INTER-COMPANY INDEBTEDNESS, CONSISTENT WITH THE CHANGES IN THE BASIC EXEMPTION FROM CONTROLS FOR DIRECT BORROWINGS, STATEMENTS IN FUTURE WILL BE REQUIRED TO BE SUBMITTED TO RESERVE BANK ONLY WHERE THE INDEBTEDNESS TO RELATED COMPANIES OVERSEAS INCREASED OR DECREASED BY MORE THAN \$A200,000 (PREVIOUSLY \$A100,000) AT ANY TIME IN ANY MONTH IN RELATION TO THE LEVEL AS OF DECEMBER 31, 1976.

9. IN JUSTIFICATION OF LATEST ACTIONS, LYNCH QUOTED AS HAVING SAID "FOLLOWING THE EXTENSION OF THE CONTROLS, THERE HAD BEEN A MARKED REDUCTION IN THE RATE OF CAPITAL INFLOW AND INCREASES IN THE MONETARY AGGREGATES HAVE BEEN BROUGHT UNDER FIRM CONTROL...(AND) IT NOW APPEARED THAT GROWTH IN THE BROADLY DEFINED VOLUME OF MONEY IN 1976-77 WILL HAVE TURNED OUT TO BE WELL WITHIN THE 10-12 PERCENT RANGE INDICATED IN THE 1976-77 BUDGET AS BEING APPROPRIATE.

THE IMPOSITION OF THESE CONTROLS LAST JANUARY HAD THUS SERVED TO ENSURE THAT DEVALUATION HAD NOT PUSHED THE GOVERNMENT'S MONETARY POLICIES OFF COURSE. THE CONTROLS HAD NOW SERVED THEIR PURPOSE IN THAT REGARD."

10: COMMENT: SEVERAL FACTORS APPEAR TO HAVE HAD A BEARING ON GOVERNMENT'S DECISION RELAX CONTROLS ON IMPORTS OF FOREIGN CAPITAL, ONE OF PRIME SOURCES OF GROWTH OF VOLUME OF MONEY. GOVERNMENT HAS BEEN LARGELY SUCCESSFUL IN CONTROLLING DOMESTIC SOURCES OF GROWTH, NOTABLY THE BUDGET DEFICIT-WHICH GIVES INDICATION OF BEING SMALLER EVEN THAN ORIGINALLY PREDICTED - AND

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LENDING BY TRADING BANKS. ANOTHER FACTOR IS SEASONAL TURNOVERS IN CAPITAL INFLOWS, WHICH WERE ONLY \$A64 MILLION IN MAY AND MAY WELL BE SHOWN TO BE LESS IN JUNE WHEN THE FIGURES ARE RELEASED IN A FEW DAYS. IT WOULD ALSO SEEM LIKELY THAT THE GOVERNMENT WOULD BE ANXIOUS TO AVOID IF AT ALL POSSIBLE ANY NET DRAIN IN CAPITAL WHICH COULD BECOME SELF-REINFORCING AND LEAD TO NEW ROUND OF

DEVELUATION SPECULATION. IT ALSO POSSIBLE TO SPECULATE THAT GOVERNMENT CONVINCED THAT THERE CONSIDERABLE AMOUNTS OF INVESTMENT CAPITAL THAT HAD BEEN PSYCHOLOGICALLY DETERRED FROM ENTERING AUSTRALIA BY PRESENCE OF VDR, DESPITE FACT THAT LEGITIMATE INDUSTRIAL AND MINING INVESTMENTS HAD NOT BEEN SUBJECT TO VDR'S. IT REMAINS UNCLASSIFIED

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TO BE SEEN WHETHER THERE NOW WILL BE APPRECIABLE INFLOW OF SUCH FUNDS. INVESTORS SEEKING TAKE ADVANTAGE OF INTEREST RATE DIFFERENTIALS WILL BE REQUIRED LEAVE THEIR MONEY IN AUSTRALIA FOR MINIMUM OF SIX MONTHS, ALTHOUGH SUCH INVESTORS WILL VIEW THIS AS IMPROVEMENT OVER PREVIOUS SITUATION WHEN TWO YEAR RULE AND 25 PERCENT VDR SHARPLY LIMITED ENTRANCE SUCH FUNDS.

11. TREASURY OFFICIALS SEE THE REDUCTION TO SIX MONTHS OF THE PREVIOUS TWO YEAR BORROWING EMBARGO AS THE MOST SIGNIFICANT OF THE GOVERNMENT'S ANNOUNCED ACTIONS, COUPLED AS IT IS WITH AN INCREASE IN EXEMPTION FROM \$A100,000 TO \$A200,000. ALTHOUGH ADMITTING THAT THERE IS SOME RISK THAT TOO MUCH BORROWING WILL RESULT, TREASURY OFFICIALS CONVINCED AMOUNTS WILL BE MANAGEABLE.

12. REGULATIONS DESIGNED AVOID TRADING LEADS AND LAGS REMAIN IN FORCE (PARA 2 C, REF D). ALSTON

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## Message Attributes

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